

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA
KEOSAUQUA, IOWA

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2014

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

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KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

OFFICIALS
JUNE 30, 2014

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Sam Polonsky	Chairman	December 31, 2016
Barbara Morris	Member	December 31, 2014
Jay Goldstein	Member	December 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Keosauqua Municipal Light and Power
A Component Unit of the City of Keosauqua, Iowa
Keosauqua, Iowa

We have audited the accompanying financial statements of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4, 5 and 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2014, on our consideration of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's internal control over financial reporting and compliance.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
October 9, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

FINANCIAL HIGHLIGHTS

The Utility's operating revenues increased 2.5% or \$36,610, from fiscal year 2013 to fiscal year 2014. Increases in revenue from the sale of electricity accounted for the majority of this increase.

The Utility's operating expenses increased 4.1% or \$58,884, from fiscal year 2013 to fiscal year 2014. This increase in operating expenses is due primarily to an increase in the purchase of power.

The Utility's net assets decreased .45% or \$12,593, from fiscal year 2013 to fiscal year 2014.

USING THIS ANNUAL REPORT

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, operates as a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Statement of Net Position presents information on the Utility's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE UTILITY

Statements of Net Position

As noted earlier, net position may serve over time as a useful indicator of the Utility's financial position. The Utility's net position at June 30, 2014 total \$2,813,474. This compares to \$2,826,067 as of June 30, 2013. A summary of the Utility's net position as of June 30, 2014 and 2013 is presented below.

STATEMENTS OF NET POSITION

	June 30,	
	2014	2013
Current assets	\$ 804,794	\$ 1,173,318
Capital assets at cost, less accumulated depreciation	2,106,258	1,751,775
Other assets	25,000	25,000
Total assets	2,936,052	2,950,093
Current liabilities	122,578	124,026
Net investment in capital assets	2,106,258	1,751,775
Unrestricted	707,216	1,074,292
Total net position	\$ 2,813,474	\$ 2,826,067

25.1% of the Utility's net position are unrestricted and can be used to meet the Utility's obligations as they come due.

Statements of Revenues, Expenses and Changes in Net Position

Operating revenues are received from the sale of electricity to the residents and business owners of the City of Keosauqua. Operating expenses are expenses paid to run the Utility. Non-operating revenues and expenses include interest income. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended June 30, 2014 and 2013 is presented below:

	REVENUES, EXPENSES AND CHANGES IN NET POSITION	
	Year ended June 30,	
	2014	2013
Operating revenue:		
Sale of electricity	\$ 1,444,473	\$ 1,404,629
Late payment charges	2,466	1,815
Miscellaneous income	30,287	34,172
Total operating revenue	1,477,226	1,440,616
Operating expenses:		
Purchase of power	1,087,257	1,063,994
Salaries	130,693	117,363
Social security and medicare	10,164	9,266
IPERS	11,637	10,070
Group insurance	38,896	46,735
Medical reimbursement	4,584	-
Line maintenance	19,069	14,829
Meter expense	12,561	223
Property and liability insurance	6,904	8,530
Truck expenses	4,294	5,493
Utilities	5,416	4,877
Travel expense	483	-
Repairs and maintenance	2,464	3,925
Bookkeeping	12,911	12,625
Legal and accounting	8,505	8,075
Office supplies	4,841	5,476
Trustee fees	408	420
Association dues and assessments	9,864	7,045
Miscellaneous	2,813	1,832
Community betterment	900	4,638
Depreciation	102,560	96,339
Energy efficiency	13,949	10,534
Total operating expenses	1,491,173	1,432,289
Operating income (loss)	(13,947)	8,327
Non-operating revenues:		
Interest income	1,354	4,638
Change in net position	(12,593)	12,965
Net position - Beginning of year	2,826,067	2,813,102
Net position - End of year	\$ 2,813,474	\$ 2,826,067

The Statement of Revenues, Expenses and Changes in Net Position reflects a negative year with a decrease in the net position at the end of the fiscal year.

In fiscal year 2014, operating revenues increased 2.5% or \$36,610, primarily due to an increase in the amount of electricity sold to customers. Operating expenses increased 4.1% or \$58,884, primarily due to an increase in the purchase of power.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes the sale of electricity and other receipts reduced by payments to suppliers and employees. Cash used in capital and related financing activities includes the purchase of capital assets. Cash provided by investing activities includes interest income and the purchase of certificates of deposit.

CAPITAL ASSETS

At June 30, 2014, the Utility had \$2,106,258 invested in capital assets, net of accumulated depreciation of \$1,286,081. Depreciation charges totaled \$102,560 for fiscal year 2014. More detailed information about the Utility's capital assets is presented in Note 4 to the Financial Statements.

ECONOMIC FACTORS

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the State continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

The Utility's distribution system requires constant maintenance and upkeep.

Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost.

The Utility anticipates the current fiscal year will be much like the last and we will maintain a close watch over resources to maintain our ability to react to unknown issues.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Keosauqua Municipal Light and Power, P.O. Box 216, Keosauqua, Iowa.

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 530,586
Certificates of deposit	131,237
Accounts receivable	139,216
Interest receivable	37
Prepaid insurance	3,718
Total current assets	<u>804,794</u>

NON-CURRENT ASSETS:

Property and Equipment:

Land	3,423
Buildings	83,040
Distribution system	3,115,916
Equipment and vehicles	189,960
Total	3,392,339
Less accumulated depreciation	1,286,081
Book value of property and equipment	<u>2,106,258</u>

Other Assets:

Notes receivable	25,000
Total non-current assets	<u>2,131,258</u>

TOTAL ASSETS 2,936,052

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Accounts payable	99,146
Accrued payroll taxes	5,672
Accrued sales tax	2,111
Customer meter deposits	9,244
Compensated absences	6,405
TOTAL LIABILITIES	<u>122,578</u>

NET POSITION:

Net Investment in capital assets	2,106,258
Unrestricted	707,216
TOTAL NET POSITION	<u>\$ 2,813,474</u>

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

OPERATING REVENUE:

Sale of electricity	\$ 1,444,473
Late payment charges	2,466
Miscellaneous income	30,287
Total operating revenue	<u>1,477,226</u>

OPERATING EXPENSES:

Purchase of power	1,087,257
Salaries	130,693
Social security and medicare	10,164
IPERS	11,637
Group insurance	38,896
Medical reimbursement	4,584
Line maintenance	19,069
Meter expense	12,561
Property and liability insurance	6,904
Truck expenses	4,294
Utilities	5,416
Travel expense	483
Repairs and maintenance	2,464
Bookkeeping	12,911
Legal and accounting	8,505
Office supplies	4,841
Trustee fees	408
Association dues and assessments	9,864
Miscellaneous	2,813
Community betterment	900
Depreciation	102,560
Energy efficiency	13,949
Total operating expenses	<u>1,491,173</u>

OPERATING LOSS (13,947)

NONOPERATING REVENUE:

Interest income	<u>1,354</u>
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CHANGE IN NET POSITION (12,593)

NET POSITION - BEGINNING OF YEAR 2,826,067

NET POSITION - END OF YEAR \$ 2,813,474

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 1,422,913
Cash received from other operating receipts	30,287
Cash paid to suppliers for goods and services	(1,192,372)
Cash paid for personal services	(196,125)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>64,703</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of property and equipment	<u>(457,043)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	1,529
Purchase of certificates of deposit	(850)
Proceeds from certificates of deposit	65,294
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>65,973</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (326,367)

CASH AND CASH EQUIVALENTS - Beginning of year 856,953

CASH AND CASH EQUIVALENTS - End of year \$ 530,586

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED
BY OPERATING ACTIVITIES:

Operating loss	\$ (13,947)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	102,560
Change in assets and liabilities:	
Increase in accounts receivable	(21,084)
Increase in prepaid insurance	(1,378)
Increase in accounts payable	1,654
Increase in accrued payroll taxes	342
Decrease in accrued sales tax	(9)
Decrease in customer meter deposits	(2,942)
Decrease in compensated absences	(493)
Total adjustments	<u>78,650</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 64,703

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, is an electrical utility plant located in the City of Keosauqua, Iowa. The Utility purchases all of its power from the Southern Iowa Electric Co-op. It sells its services to the citizens, businesses and the City of Keosauqua, Iowa.

The financial statements of the Utility are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utility. Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, has no component units which meet the Governmental Accounting Standards Board criteria.

Keosauqua Municipal Light and Power is presented as a Component Unit in the City of Keosauqua, Iowa's financial statements. The Utility is a legally separate entity from the City, but is financially accountable to the City. The Utility is governed by a three-member Board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Basis of Presentation

The accounts of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash, Cash Equivalents and Investments - The Utility considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than six months. Cash investments not meeting the definition of cash equivalents at June 30, 2014 include certificates of deposit of \$131,237.

Valuation of Investments

In determining fair value, the Utility uses various valuation approaches. FASB establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Utility. Unobservable inputs reflect the Utility's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Utility has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Utility only holds Level 1 securities.

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable – The Utility grants credit to customers, substantially all of whom are located in Keosauqua, Iowa. The risk of loss on the accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. Bad debts are charged to operations in the year in which the account is determined uncollectible. If the reserve method of accounting for uncollectible accounts were used, it would not have a material effect on the financial statements.

Capital Assets - Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Utility as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of one year.

<u>Asset Class</u>	<u>Amount</u>
Buildings	\$ 2,500
Distribution system	2,500
Equipment and vehicles	2,500

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-25
Distribution system	30-40
Equipment and vehicles	5-10

Compensated Absences – Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2014.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's, deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Municipal Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Municipal Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the utility.

NOTE 3 – FAIR VALUE MEASUREMENTS

The Utility's investments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB. See Note 1 for a discussion of the Utility's policies.

The Utility's investments measured at fair value as a June 30, 2014 are as follows:

	<u>Level 1</u>
Certificates of Deposit	\$ <u>131,237</u>

NOTE 4 – CAPITAL ASSETS

A summary of capital assets at June 30, 2014 is as follows:

	<u>Balance June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ <u>3,423</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,423</u>
Capital assets, being depreciated:				
Buildings	80,004	3,036		83,040
Distribution system	2,661,909	454,007	-	3,115,916
Equipment and vehicles	<u>189,960</u>	<u>-</u>	<u>-</u>	<u>189,960</u>
Total capital assets being depreciated	<u>2,931,873</u>	<u>457,043</u>	<u>-</u>	<u>3,388,916</u>
Less accumulated depreciation for:				
Buildings	71,225	1,258	-	72,483
Distribution system	953,179	84,012	-	1,037,191
Equipment and vehicles	<u>159,117</u>	<u>17,290</u>	<u>-</u>	<u>176,407</u>
Total accumulated depreciation	<u>1,183,521</u>	<u>102,560</u>	<u>-</u>	<u>1,286,081</u>
Total capital assets being depreciated, net	<u>1,748,352</u>	<u>354,483</u>	<u>-</u>	<u>2,102,835</u>
Total capital assets, net	\$ <u>1,751,775</u>	\$ <u>354,483</u>	\$ <u>-</u>	\$ <u>2,106,258</u>

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 – PENSION AND RETIREMENT BENEFITS

The Municipal Utility contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$11,637, \$10,070, and \$8,631, respectively, equal to the required contributions for each year.

NOTE 6 – RELATED PARTY TRANSACTIONS

The Utility sells electricity to and purchases bookkeeping services and water from the City of Keosauqua, Iowa. The following is a summary of the transactions and balances as of and for the year ended June 30, 2014:

Electricity paid by the City of Keosauqua, Iowa to the Utility	\$ 17,054
Accounts receivable from the City of Keosauqua, Iowa	669
Bookkeeping expense paid by the Utility to the City of Keosauqua, Iowa	12,911
Water fees paid by the Utility to the City of Keosauqua, Iowa	570
Accounts payable due to the City of Keosauqua, Iowa	1,012

NOTE 7 – RISK MANAGEMENT

The Utility is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the board not to exceed 300 percent of the basis rate or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Utility's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The Utility's contributions to the Pool for the year ended June 30, 2014 were \$4,957.

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – RISK MANAGEMENT (Continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Utility's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Utility's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Utility's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims and losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. The Utility does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2014, no liability has been recorded in the Utility's financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The Utility also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation and employee blanket bond. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 – MAJOR CUSTOMERS

Sales to three major customers were \$503,541 for the year ended June 30, 2014, representing 34.1% of the total operating revenue for the year. At June 30, 2014, amounts due from these customers included in accounts receivable were \$47,466.

NOTE 9 – MAJOR SUPPLIERS

For the year ended June 30, 2014, the Utility purchased all of its power from one supplier totaling \$1,087,257. At June 30, 2014, amounts due to this vendor included in accounts payable were \$93,969.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS

The Utility has evaluated subsequent events through October 9, 2014, the date which the financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Keosauqua Municipal Light and Power
A Component Unit of the City of Keosauqua, Iowa
Keosauqua, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's basic financial statements and have issued our report thereon dated October 9, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item I-A-14 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's Response to Findings

Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's response to the findings identified in our audit is described in the accompanying schedule of findings. Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
October 9, 2014

KEOSAUQUA MUNICIPAL LIGHT AND POWER
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

Part I: Findings Related to the Financial Statements

Internal Control Deficiencies:

- I-A-14 Segregation of Duties - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize that segregation of duties is difficult with a limited number of office employees. However, the Utility should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - This is a continuing problem for us, but an entity the size of our Utility does not have the finances to segregate the duties as recommended. The Board of Trustees will continue to monitor operations on a monthly basis.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting

- II-A-14 Questionable Expenses - No expenses that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-B-14 Travel Expense - No expenditures of money for travel expenses of spouses of Utility officials or employees were noted.
- II-C-14 Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.
- II-D-14 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- II-E-14 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- II-F-14 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.